LEGISLATIVE AUDIT COMMISSION

Review of
Department of Central Management Services
Year Ended June 30, 2006

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REVIEW: 4270
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TWO YEARS ENDED JUNE 30, 2006

FINDINGS/RECOMMENDATIONS - 18

ACCEPTED - 17
NOT ACCEPTED - 1

REPEATED RECOMMENDATIONS - 10

PRIOR AUDIT FINDINGSS/RECOMMENDATIONS - 22

This review summarizes the audit of the Department of Central Management Services for the year ended June 30, 2006, filed with the Legislative Audit Commission May 24, 2007. The auditors conducted a compliance examination and a financial audit in accordance with *Government Auditing Standards* and State law, and stated that the financial statements of the Department are fairly presented.

The Department of Central Management Services (CMS) provides a wide variety of centralized service to other State and local government agencies. As an agency that provides services to other units of government, The Department is in a unique position to ensure that tax resources are expended in a responsible and effective manner.

CMS is organized into eight major bureaus: Benefits, Communication and Computer Services, Information Services, business Enterprise Program, Personnel, Property Management, Strategic Sourcing and Procurement, and Administrative Operations. The current organizational structure was developed to provide streamlined management, improved accountability and improved efficiency in the delivery of service to other agencies. The Department is responsible for the coordination of data processing and data communications; providing personnel, procurement, vehicles, and property management services; management of State employee benefit plans; centralized accounting for revolving and trust funds under its control; and administration of the State's Business Enterprises Program for Minorities, Females and Persons with Disabilities.

Effective July 1, 2005, health care purchasing was consolidated under the Department of Healthcare and Family Services. CMS maintained the administrative and member facing function while DCFS assume the responsibilities of claim payment, contract administration and vendor facing functions.

Paul Campbell was the Director of the Department during the one-year period under review. He served as Acting Director from June 1 through June 30, 2005, and then as Director until his resignation on March 9, 2007. Ms. Maureen O'Donnell began serving as Acting Director on March 10, 2007. She joined CMS as an Assistant Director early in 2006.

The average number of full-time equivalent employees appears in the chart below.

	FY06	FY05	FY04
Administrative Operations	223	169	152
Communications & Computer Services	760	552	330
Personnel	121	129	132
Benefits	93	103	114
Support Services	-	-	226
Strategic Sourcing & Procurement	210	226	-
Property Management	243	252	138
Information Services	73	67	51
Business Enterprise for Minorities, Females & Persons with Disabilities	6	6	6
Internal Security & Investigations	-	-	31
TOTAL	**1,729**	**1,504**	**1,180**

Expenditures From Appropriations

The General Assembly appropriated $1,051,862,700 to the Department for the year ended June 30, 2006. Appendix A summarizes these appropriations and expenditures by fund for the period under review. Of the Department's appropriations, 9.2% are from the General Revenue Fund, and the remaining appropriations are from 14 other funds.

Total expenditures of the Department decreased by $2.5 billion from $3,248,317,968 in FY05 to $743,959,937 in FY06. Examples of significant variations in expenditures between FY05 and FY06 included:

- $897.5 million decrease in GRF expenditures due to the transfer of administration for Group insurance to the Department of Healthcare and Family Services;
- $121.3 million (100%) decrease in Road Fund expenditures due to appropriation authority transfers to the Department of Healthcare and Family Services;
- $69.9 million (100%) decrease in Local Government Health Insurance Reserve Fund due to the transfer of appropriation authority to the Department of Healthcare and Family Services;
- $37.8 million increase in the Statistical Services Revolving Fund for a facilities management prepay, software licensing and computer maintenance contracts;
- $37 million increase in Facilities Management Revolving Fund expenditures due to the facilities management consolidation into CMS;
- $11 million decrease in Efficiency Initiatives Revolving Fund expenditures was attributed to computer related items being paid from the Statistical Services Revolving Fund due to IT consolidation and fewer efficiency initiative payments;
- $27.6 million increase in Workers' Compensation Revolving Fund expenditures as a result of the consolidation of the Workers' Compensation Program into CMS; and

- $1.5 billion decrease in Health Insurance Reserve Fund expenditures due to the transfer of administration and appropriation authority to the Department of Healthcare and Family Services.

Lapse period spending in FY06 was 9.5%, or almost $71 million.

Ordinary and contingent expenditures and all other expenditures are described by object in Appendix B. The decrease in expenditures from FY05 to FY06 was due primarily to the transfer of healthcare services from CMS to DHFS.

Cash Receipts

Appearing in Appendix C is a summary of all cash receipts of the Department from FY04 through FY06. Total cash receipts decreased from $2,122,509,854 in FY05 to $1,329,063,676 in FY06. Examples of significant variations in receipts from FY05 to FY06 included:

- $49 million increase in the Statistical Services Revolving Fund was due to agencies making payment for IT consolidation. Agencies were billed for expenses in FY06.
- $171.2 million increase in the Facilities Management Revolving Fund from receipts from GRF and State agencies as a result of the facilities management consolidation.
- $1,063 million decrease in transfers in from other funds as a result of the transfer of the Group Insurance program to DHFS.

Property and Equipment

Appendix D provides a summary of property and equipment for FY06 and FY05. The balance as of the end of FY06 for property and equipment was $598,837,000. In FY06, the majority of property and equipment ($356.6 million) was comprised of buildings and building improvements.

Accounts Receivable

According to the Department, net accounts receivable was about $3.2 million as of June 30, 2065. The largest receivable was $1.1 million for the State Employees' Deferred Compensation Plan.

Accountants' Findings and Recommendations

Condensed below are the 18 findings and recommendations included in the audit report. There were ten repeat findings. The following recommendations are classified on the basis of information provided in the audit report, which was released on May 24, 2007.

Not Accepted

12. Bill Facilities Management Revolving Fund charges to user agencies on a timely basis to avoid cash shortfalls within the fund. We further recommend the Department establish adequate controls to ensure compliance with the appropriation process and with the statute regarding payroll certification.

<u>Findings:</u> The Department circumvented the appropriation process and violated the State Finance Act when it temporarily transferred personnel from the Facilities Management Revolving Fund (FMRF) to the Efficiency Initiatives Revolving Fund (EIRF) and the Professional Services Fund (PSF).

The FMRF is an internal service fund intended to finance its operations through charges to user agencies. The Department did not bill user agencies on a timely basis in FY06 resulting in a cash shortfall to meet its operating costs. In order to pay outstanding vendor bills and meet payroll obligations, the Department transferred employees performing facilities management functions to other funds that had the ability to absorb the payroll obligations of the FMRF.

For three pay periods during fiscal year 2006, approximately 300 employees performing facilities management duties were temporarily transferred to the EIRF. Total payroll and related costs of $2,219,596 were paid by the EIRF. Additionally, for three pay periods during fiscal year 2006, approximately 300 employees performing facilities management duties were temporarily transferred to the PSF. Total payroll and related costs of $2,188,941 were paid by the PSF.

Department officials stated they believed they had statutory authority to pay for facilities related consolidation expenses out of EIRF and for facilities management services out of PSF; however, all headcount and related payroll costs appropriated from FMRF were transferred in each case to EIRF and PSF, respectively.

<u>Response:</u> Not Accepted. The Department has statutory authority to expend both PSF and EIRF funds in support of Facilities Management services pursuant to 20 ILCS 405/405-293; 30 ILCS 105/6p-5; and 30 ILCS 105/8.16c. The Department further believes that its payroll certification was accurate. The organizational unit for which the appropriations were made is a central unit within the Department servicing all other units, administering multiple appropriations supporting multiple programs.

<u>AUDITOR'S COMMENT</u>: The appropriation bill authorized over $46 million from the Facilities Management Revolving Fund (FMRF) for personal services costs of the Bureau of Property Management in FY06. Because of problems noted by the auditors in billing and collecting State agencies for facilities management services, the FMRF had a severe funding shortfall (see Findings 06-7). Consequently, Bureau of Property Management payroll costs that were intended to be paid from FMRF, and that were appropriated from FMRF, were instead administratively shifted to appropriations made for the Bureau of Administrative Operations from the Professional Services Fund (PSF) and Efficiency

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Initiatives Revolving Fund (EIRF). While use of the PSF and EIRF for this purpose is permitted under the statutory provisions creating these funds, we continue to recommend that appropriations made by the General Assembly for one Bureau not be used for costs associated with operations of another Bureau absent the use of established methods designed to alter or amend appropriation authority.

Accepted

1. Comply with the provisions of OMB Circular A-87 by performing an annual comparison of revenue generated by each billed service to the actual allowable cost of the service and make an adjustment for the difference using an acceptable method. In addition, the financial statements should reflect the effect of this determination.

Findings: The Department did not comply with the requirements of OMB Circular A-87, incurred a liability to the federal government for overcharges in two internal service funds for FY04 and FY05, and did not recognize the liability until a federal audit was initiated subsequent to FY06.

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State. OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, allows internal service funds to maintain reasonable working capital reserves, up to 60 days cash expenses, for normal operating purposes.

However, two internal service funds administered by the Department maintained fund balances in excess of the allowable working capital reserve. It is estimated that the Statistical Services Revolving Fund liability for fiscal years 2004 and 2005 is approximately $6.136 million and the Communications Revolving Fund liability for fiscal years 2004 and 2005 is approximately $6.920 million.

Furthermore, the Department failed to perform the annual comparison and make adjustments as required by the Circular. This current situation was brought to the Department's attention by federal auditors.

Department officials stated the non-inclusion of the potential liability on the financial statements was due to past practice, and ongoing negotiations with the Federal Department of HHS on the potential payback.

Response: Accepted. The Department concurs with the overall recommendation to adjust for overbalances on a more timely basis, and to recognize potential payback liabilities on its financial statements. The Department did provide a disclosure to such effect on the FY06 statements. The Department also notes the following: The Department does perform

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an annual reconciliation as required by Circular OMB A-87, and does seek to adjust overcharges on a continuing basis through rate adjustments and credits.

2. Maintain procurement files that contain all relevant information to the decision making process. (Repeated-2004)

Findings: The Department's contract files lacked basic information, such as best and final offers and written determinations for contract award, to adequately document the evaluation and selection process.

The procurement and award files for ten solicitations or contracts awarded in FY06, totaling a maximum award amount of approximately $151 million, were selected for testing. Five of the ten tested files awarded in FY06 lacked documentation in the contract files in one or more areas. Many of the requested documents were subsequently provided; however, the initial omission of these documents from the contract files demonstrates the Department's inability to provide sufficient support for procurement decisions in a timely and complete manner.

Specific documentation not contained in contract files included the following:

- One did not have written recommendation or decision memorandum for a procurement outlining reasons for selecting the winning vendor.
- One did not have documentation supporting the pricing evaluation component of the procurement.
- Four did not have documentation of reference checks.
- Two did not have best and final offer documentation.
- One did not have documentation of the protest letters and responses.

Department officials have represented these deficiencies were the result of unclear or inadequate guidelines established for the procurement process and lack of training for procurement officers.

Response: Accepted. In May 2005 the Department issued Chief Procurement Officer (CPO) Notice #37 requiring all appropriate documentation to be maintained in the file. The Department conducted training for CMS and the State Purchasing Officers in May and July 2005. The Department improved the Procurement Business Case (PBC) and as of June 2005 requires the award justification to be added to ensure a complete record of the procurement activity. The PBC serves as a decision memo to capture procurement data, justification, vendor information and necessary approvals from inception to completion for procurements that meet the requirements for a PBC. On September 1, 2005 the Department issued an internal procurement memo to CMS staff establishing additional written procedures and additional controls. The Department continues training and enforcement of policies and procedures with CMS staff and SPOs through regular monthly meetings.

3. Follow evaluation criteria stated in Requests for Proposals when evaluating and awarding State contracts. Additionally, the Department should implement procedures to more thoroughly establish evaluation criteria prior to issuance of the original procurement request to minimize the need to change the evaluation criteria through subsequent addendum so that all vendors are assured of a fair and open contracting process. (Repeated-2004)

Findings: The Department used evaluation criteria to evaluate vendor proposals that were not stated in the Request for Proposals (RFP). Specifics of the scoring methodology and weighting of pricing alternatives were not included in the original RFP, and in some cases, not communicated to proposing vendors or reflected in any addendums.

The procurement and award files for ten solicitations or contracts awarded in fiscal year 2006, totaling a maximum award amount of approximately $151 million, were selected for testing.

- In one the procurements, a $27 million master contract for leasing and purchasing of personal computers and laptops, the pricing formula used to evaluate the proposal was not reflected in the original specifications or in an addendum to the Request for Proposal. The Department specifically failed to indicate what percent of the scoring would be based on leasing versus purchasing, which was an essential element of the proposal.

- In one of the procurements, a contract for federal revenue maximization services, the auditors noted that the original request for proposal failed to specify how proposals would be evaluated if a vendor proposed on all components of work, an individual component of the work or multiple but not all components of the work. Additionally, the RFP did not include technical scoring values or scoring weights. This information was subsequently provided to the prospective proposers through addendums.

Department officials have represented these deficiencies occurred prior to the establishment of formalized written procedures and training.

Response: The Department concurs and has implemented procedures to strengthen this control subject to the prior audit findings. The exceptions noted in the testing were selected from a period prior to the Department formalizing written policies to address these concerns. The following policies have been implemented:

- In May 2005 the Department issued Chief Procurement Officer (CPO) Notice #40

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enforcing that the evaluation criteria and sourcing methodology need to be accurately reflected in the Request for Proposal (RFP) and any change to the evaluation criteria is published as an addendum on the Illinois Procurement Bulletin.

- On September 1, 2005 the Department issued an internal procurement memo to CMS staff establishing additional written procedures and additional controls.

- The Department continues training and enforcement of policies and procedures with CMS staff and SPOs through regular monthly meetings.

4. Comply with the Procurement Code in all matters relating to the lease of office space. (Repeated-2004)

<u>Findings:</u> The Department applied inconsistent criteria when determining the responsiveness of vendors resulting in the improper exclusion of a responsive bidder.

The procurement and award files for ten solicitations or contracts awarded in FY06, totaling a maximum award amount of approximately $151 million, were selected for testing. In one of the ten, the Department had improperly excluded a responsive bidder from future lease negotiations.

The Department reviewed bid proposals submitted by three bidders for office space to be leased in Chicago and extended an invitation to submit a “best and final proposal” to two of the bidders. The Department concluded the omitted vendor’s proposal was not “viable” based on certain cost provisions and the fact that the proposal would require temporary office space to be secured until the permanent space could be made available. However, the original proposal of one of the bidders invited to submit a “best and final proposal” also would require temporary office space to be secured. The original proposal of the other bidder invited to submit a “best and final proposal” was determined to be the highest cost proposal of the three.

Furthermore, in an internal Department memorandum dated September 28, 2005 Department officials stated each package had proper site control, but none of them could meet the requirements as identified in the RFP due to the parking requirements, build-out, and time period requirements. Based on the information in the bid packages and the Department’s own evaluation of the process, none of the bidders submitted responsive bids.

Department officials have represented that the vendor was only willing to submit a proposal with a cap on the dollars per square foot for tenant improvements; however, this was not documented in the procurement file and the Department cost analysis considered additional costs that would potentially be incurred in excess of the improvement allowance.

Response: Though Best and Final negotiations are not typically conducted with vendors who do not meet pricing requirements, we concur that the process and decision making should have been better documented. The Department notes that the vendor's bid contained an unacceptable method of pricing. The vendor was unwilling to modify the pricing proposal, so the bid was deemed unresponsive. Therefore, only the two vendors that were responsive for the pricing component were included in the Best and Final negotiations.

5. Develop a process to more effectively assess the needs of State agencies when developing master contract procurement specifications. Further, the Department should establish guidelines or a system to ensure multiple agency utilization of master contracts provides adequate vendor performance in relation to anticipated needs, especially for awards made through the proposal process. (Repeated-2005)

Findings: The Department does not have an adequate process in place to assess the State's needs for master contracts and to develop and monitor the usage of master contracts.

In one of four contracts awarded in 2005, a master contract to provide VSAT (Very Small Aperture Terminal) data transport services, the State determined there was a need to provide satellite services across the State for schools in remote areas as well as for Illinois State Police mobile units. The State believed these alternative data transport services would be much more cost effective than existing services, along with providing transportable solutions that could be temporarily setup in remote locations.

The RFP estimated the contract amount at $3,800,000 over three years; however, actual usage by one agency was just over $20,000 during the first year, FY06. A total of $114,421 was expended for VSAT satellite services in FY06, but Department personnel indicated approximately $94,000 of the total was for mobile installation of the VSAT units in support of the Hurricane Katrina effort. The Department noted this payment was not made off the VSAT master contract; however, the vendor agreed to extend the master contract pricing to the emergency equipment/service order.

Failure to adequately assess the State's needs in developing specifications for master contracts may impair the procurement process. Inaccurate representation of the scope of the procurement may alter the pool of prospective bidders, thus denying the State and the individual agencies access to qualified vendors. The Department lacks a system to effectively monitor usage of master contracts.

Department officials stated the nature of some master contracts, particularly those for new concepts not previously procured, and those relying on significant participation from non-state agencies, makes it difficult to accurately predict usage. In the case of the particular

Accepted – continued

contract in this finding, the goal was to have a master contract available in case of a catastrophic event, using best estimates of usage under such conditions.

Response: Accepted. We will continue to improve our assessment of the needs of State agencies when developing master contracts, on a case by case basis, since each master contract has unique criteria and circumstances. While the Department agrees that it lacks a comprehensive system to gather accurate projected usage of specific supplies and services, especially from local governments, it does not feel the methods used are inadequate. Although research is conducted and projections are made, usage of master contracts, especially for new concepts, does not always meet the targeted spending. Further complicating projections for master contract usage is the potential participation of local governments and intended use for unpredictable events (e.g. disaster preparedness, etc.) Projecting usage from entities for which CMS has no control over budget decisions or spending is difficult at best. Due to this unpredictability, CMS believes that devoting additional resources to estimating master contract usage is not always cost beneficial. The purpose of the master contract is to have the good or service available should user entities have the need and/or decide to use their budgeted dollars on that need.

The one out of four master contracts highlighted in the audit as overstating usage estimates had a unique set of circumstances. CMS surveyed agencies interested in using the VSAT technology, as all agencies and first responders recognize the value and necessity of satellite communications as a critical failsafe component of emergency response, disaster preparedness, and overall homeland security. To that end, the state's VSAT capabilities are being integrated into the statewide interoperable communications plan, and they are already a functioning component of Unified Area Command deployment. The contract dollar amount was a total estimated as a worst-case scenario so that the state would not fall short during an event, forcing us to "overspend" the contract during a life-safety and emergency response. Fortunately, no disasters have occurred of a magnitude that would require VSAT technology; however, the state must be prepared. Given the proven disaster response and homeland security potential of VSAT communications, it was important to estimate the possible demands that could be placed upon it during a major catastrophic event.

6. Take the necessary steps to ensure contracts are timely filed with the State Comptroller within 15 days after the execution of the agreement.

Findings: The Department was not timely in filing contracts in excess of $10,000 with the Comptroller. Fourteen of the 42 contracts tested, totaling $87 million were filed 22 to 99 days after the execution of the contract. The Department submitted late filing affidavits for the nine contracts that were filed more than 30 days late as required.

Department officials stated the volumes of contract and amendment activities delay the filings.

Response: Accepted. However, it should also be noted that the Illinois Procurement Code anticipates that some contracts will not be filed timely, and provides the affidavit mechanism as a compensating control. All affidavits related to the nine contracts were properly executed and filed.

7. Implement a system to effectively carry out facilities management responsibilities as follows:

- **Fully implement a cost allocation methodology and billing system to facilitate timely billing to user agencies and timely transfer or collection of charges.**
- **Obtain necessary information to enable preparation of complete, accurate and timely billings to user agencies.**
- **Establish an effective fiscal function to ensure vendor payments are made timely.**
- **Complete a property utilization assessment to address space needs and enable the Department to eliminate the significant number of leases in holdover status.**
- **Implement a financial reporting system to effectively account for and analyze occupancy costs by property and agency.**
- **Determine if repayment for the abated period was received. If not, the Department should seek to recover the payment. (Repeated-2005)**

Findings: The Department has not established a property management function to effectively manage occupancy costs and revenues.

Responsibility for managing the majority of State-owned and leased buildings was transferred to the Department through Executive Order 2003-10, which consolidated the Facilities Management function. The Department is currently responsible for managing 706 State owned or leased properties. The Department's Bureau of Property Management has primary responsibility for coordinating Department activities involving State property. Beginning in FY05, most transactions, including charges to or transfers from user agencies for space occupancy and payment of property costs such as lease payments, building maintenance, utilities and security were accounted for in the Facilities Management Revolving Fund (FMRF).

Lack of Timely Funding or Billing

In FY05, the Department contracted with a consultant to design a cost allocation methodology that would determine costs by agency and property for purposes of establishing billings to the agencies for the management of their buildings and properties. On April 8, 2005 the Department completed its new rate model and did its first billing using
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these rates. As of December 7, 2005, the Department had not completed the calculation of the new rates for FY06. Furthermore, as of January 30, 2006, agencies had not been billed using new 2006 rates. Delays in updating the cost allocation model and billing agencies have created difficulties in monitoring user agency occupancy costs which had a negative impact in the development of fiscal year 2006 budgets and forecasting for fiscal year 2007.

Untimely transfer of funds to Facilities Management Revolving Fund (FMRF) and delays in billing for federally reimbursable occupancy costs created a cash flow problem within the FMRF that carried over into FY06. Also, properties and buildings owned by the Department of Natural Resources, the Department of Transportation, and the Illinois State Police were transferred to FMRF for fiscal year 2006. As of January 30, 2006 no bills had been sent to these agencies for their approximately 150 leases; this delay further increased the cash flow problems of FMRF. Department officials have represented that the BAS had to be modified for FY06 and a contract with the facilities management consultant was terminated in May 2005 causing staff shortages that delayed the rate development for 2006.

<u>Delayed Vendor Payments and Consolidation Issues</u>

Payments to vendors for monthly lease obligations, utilities and other occupancy related costs were not made timely. Issues noted included:

- The Department received numerous calls of complaints from vendors regarding late payment of invoices.
- The Department did not conduct a true up of FY05 billings to amounts paid until FY07. Thus current rates could not be adjusted to reflect the true costs of the facilities.
- The Department transferred headcount and related payroll costs from facility management to the Professional Services Fund totaling $2.189 million and the Efficiency Initiatives Revolving Fund totaling $2.220 million due to cash flow shortages from untimely billing (see Findings number 06-12).
- The Department lacks an effective accounting system to manage its property costs and leases by location.
- The Department received eviction notices due to late payment.
- The Department received disconnection notifications from utility companies.

<u>Renewal of Leases Not Actively Managed</u>

The Department is not actively managing its leased space or occupancy, nor bidding and renewing, or consolidating its existing leases resulting in a substantial number of leases that have not been timely renewed or terminated. Department records indicate that as of December 8, 2005, 293 of the 596 (49%) leases were in holdover status. As of October 2006 there were still 230 leases in holdover status. Many of these leases have been in this status for over 5 years. The Department has not assessed effective utilization of the space and has not negotiated terms that may be more favorable to the State. Furthermore, lack of a formal, written agreement has exposed the State to litigation in one situation involving a holdover lease and the State is involved in another suit involving termination of a lease as follows:

- The Department terminated holdover tenancy on behalf of the Department of Employment Security and the State is being sued for breach of contract. The claimant is seeking $616,599 restitution.

- The Department terminated the lease of a warehouse on behalf of the Department of Public Aid (now the Department of Healthcare and Family Services) and the State is being sued for breach of contract. The claimant is seeking $2,698,114 restitution.

In addition to the holdover lease issue, we noted numerous issues regarding the handling of three leases in a Chicago property.

Failure to address the issues created by the consolidation of the facilities management function has resulted in the Department's inability to effectively manage occupancy costs and revenues by property and agency. Lack of an effective accounting and financial reporting system diminishes the Department's ability to control costs, assess the needs of State agencies, negotiate favorable lease terms and effectively budget.

Response: The Department concurs, and notes that it has implemented most of the recommendations during FY06:

- The Department has implemented a cost allocation methodology that has been reviewed and approved by the U.S. Department of Health and Human Services. This methodology has been used to develop all Facilities Management Revolving Fund rates.

- The Department performs an annual reconciliation as required by Circular OMB A-87, and adjusts for under/over charges on a continuing basis through rate adjustments. The true ups for each year have been built into new rate structures.

- Beginning in FY06, CMS billed agencies through the Facilities Management Revolving Fund, based on rates developed primarily from self-reported budget data housed at each agency. These established rates are reconciled to actual expenditures annually and will continue to be refined each year as baseline data for property management expenditures improve.

- The Department has implemented the Tenancy Rate Management System (TeRMS) to maintain rate and occupancy information by building for monthly billing purposes. In addition, procedures have been implemented to update the information in TeRMS as additions, moves, changes, and/or terminations occur. Cash flow resulting from timely monthly billing of agencies and timely payments by

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agencies is the primary factor in the FMRF's ability to pay vendors more timely.

The Department has employed procedures to maintain rate and occupancy information in TeRMS necessary for the timely monthly billing of agencies. When sufficient cash flow into the FMRF is available, the FMRF Fiscal Office has procedures necessary to process vendor payments in a timely manner. The Department is current with vendor payments.

- The Department has developed an Internet Billing System (IBiS) to facilitate Facilities Management Revolving Fund billings, and has implemented procedures to present monthly IBiS billings to agencies on a timely basis. In addition, agencies are instructed to make payments to the Facilities Management Revolving Fund on a timely basis. Facility Management IBiS billings are now current. The Department is in the process of building a comprehensive rate information database system. Information of actual billings and actual costs will be downloaded to the database on a regular basis to perform comparative analysis against the rate based billings. Material variances can be corrected during the year. All other variances will be adjusted in the year-end reconciliation process.

- The Capital Development Board has issued a contract for Facility Condition Assessment of State owned facilities. Work has already commenced on this project, and will focus on the assessment of non-university State-owned property. Included in the scope of this contract is a determination of excess and underutilized space at each assessed facility. In addition, the Department is working diligently to address the holdover leases and is reporting its progress to the Procurement Policy Board.

- The Department is seeking repayment of the rebate.

8. Continue to fully implement the remaining four management audit recommendations contained in the February 2004 Space Utilization Management Audit that were partially implemented. (Repeated-2004)

<u>Findings:</u> In February 2004, the Office of the Auditor General released a management audit of the Department of Central Management Services' Administration of the State's Space Utilization Program. The audit contained nine recommendations to effectively manage the State's real property. At the conclusion of the Department's compliance examination for FY04, none of the nine recommendations had been fully implemented. At the conclusion of the Department's compliance examination for FY06, four of the nine recommendations had been fully implemented. At the conclusion of this compliance examination for FY06, one of the five remaining recommendations was implemented and four are still only partially implemented.

The Department awarded a $24.9 million three-year contract for professional asset management services to Illinois Property Asset Management (IPAM) on December 29, 2003. An IPAM representative stated at an LAC meeting in March 2004 that IPAM would make substantial progress in implementing the management audit recommendations by the end of FY04. In May 2005, the Department cancelled the IPAM contract. Below is a summary of the recommendations that have not been implemented.

The following four recommendations have not been fully partially implemented by the Department:

- **Accuracy of the Master Record (Recommendation #2):** *The Department should conduct a statewide inventory of real property to develop an accurate accounting of land and buildings owned by the State.* The Department has developed an accounting of land and buildings owned by the State. However, the master record needs additional verification through the Department's process of facility condition assessments for approximately 40 million square feet of State-owned space.

- **Automation of the Master Record (Recommendation #3):** *The Department should once again look into the possibility of automating the master record of State-owned real property.* The Department has automated the master record and it is maintained in a database with the vendor. However, since termination of the contract, the Department does not have physical possession of the databases – they are still with the vendor.

- **Use of Unoccupied Space in State-Owned Facilities (Recommendation #7):** *The Department should conduct a detailed examination of all real property owned or controlled by the State and determine what property is excess. For property identified as excess, the Department should ensure it is efficiently utilized or disposed of.* The Department has not completed the facility condition assessments on State-owned facilities to be able to identify all excess space.

- **Monitoring of Leased Space (Recommendation #8):** *The Department should take proactive steps in monitoring leased space and seek to identify any efficiencies.* The Department has not performed a complete analysis of leased space and the potential for excess space in leased facilities.

Response: Accepted. A contract for Facility Condition Assessments has been awarded by GOMB and the Capital Development Board to assess the remaining properties that were not assessed in the previous vendor's contract. Included in the scope of this contract is determination of excess or underutilized space in State owned buildings. In addition, the Department staff performs site visits to CMS managed buildings, owned or leased, to determine if there is excess space that is not being utilized and is working with agencies to restack locations where underutilized space is found. The Department performs reviews of leased spaces and has consolidated leases when possible.

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9. Implement an effective inventory control system to improve controls over the receipt and tracking of inventory, reduce the potential for theft, and enable

Surplus to better serve the needs of State agencies. (Repeated-2004)

Findings: The Department's Division of Property Management State Surplus Warehouse has not implemented an adequate inventory control system. A paper listing of surplused property submitted by agencies with the delivery of items to the warehouse was the only record of surplused inventory.

Response: The Department concurs with the recommendation, and has progressively worked to address this situation through the following actions:

- In 2005, the Department created the Inter-Agency Council on Property Control to review current property control rules and propose recommended changes. Comprised of various property experts from agencies, boards and commissions, the Council finalized its report in 2006 and submitted proposed rule changes to JCAR. A hearing is pending.

- During FY06, the Department began pursuing purchase of an interim surplus inventory management system compatible with the multiple systems currently maintained by agencies, boards, commissions, universities and constitutional office-holders.

- During FY07 the Department awarded a master contract for removal/disposal and recycling of electronic equipment. As part of this contract, the state's vendor will maintain a comprehensive web-based, database for all surplus electronic assets processed under this agreement. Such system will provide real-time asset management, providing necessary management reports and accountability. The system will provide for electronic transfer of assets back into state service, and/or offer "buy now" features for electronics to be sold to local governments, etc.

10. Implement adequate controls and procedures to ensure property and equipment is properly safeguarded and records are complete and accurate. Properly complete and maintain supporting documentation for deletions and transfers. Coordinate the Annual Certification of Inventory more effectively. (Repeated-2002)

Findings: The Department has not provided adequate control over property and equipment. The auditors tested the physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions, and noted deficiencies in each area as described below.

Physical Inventory and Location of Equipment

During testing of the physical inventory and location of 60 items of equipment the auditors noted the following weaknesses in internal controls:

- Modular panels and a scanner valued at $16,888 were located at a site other than the location listed on the property control records.
- A color laser printer and a metal cabinet were not recorded in the property control records.
- A color scanner valued at $33,200 was incorrectly tagged. The scanner was verified with the serial number.
- Modular panels valued at $190,336 did not have property tags and could not be verified as those listed in the property records.

Department management stated that many of the property control issues noted above were a result of errors or misunderstanding on the part of property control location supervisors. They further stated the Department has established policies and procedures related to property control, but it is the responsibility of each property control location supervisor to ensure property control records are accurate and complete.

<u>Equipment Purchases</u>

During testing of 25 equipment purchases auditors noted the following:

- An air conditioner valued at $1,519 was not recorded in the property control records.

Department representatives stated the errors occurred due to insufficient staffing and human errors.

<u>Annual Certification of Inventory</u>

During testing, the auditors noted the annual certification of inventory was performed inadequately as follows:

- The same procedures are not followed at every location.
- Property not found at the location identified in the property control records was not listed as a discrepancy.
- Property found at a location but not listed for that location was not certified.
- Certification and Discrepancy sheets were not filled out correctly.
- A complete inventory listing did not always accompany the certification.
- The list of property control liaisons was not accurate.

Department personnel have represented the deficiencies in the Annual Certification of Inventory are the result of insufficient resources and lack of organization caused by the significant consolidations the Department has undergone.

<u>Equipment Transfers and Deletions</u>

During testing of transfers and deletions of property and equipment, the following problems were noted:

- 14 items with an original cost totaling $1,675,595 did not have all information required on supporting documentation.

Accepted – continued

- 13 items with an original cost totaling $225,285 had no supporting documentation.

Department representatives stated the errors occurred due to lack of staff knowledgeable of the property requirements.

Response: Accepted. The Department is working to administer improved documentation controls over equipment moves and deletions. It is important to note that the testing did not discover missing or unaccounted for equipment, but primarily inaccurate tags and/or location information.

11. Take the necessary steps and implement policies to allow for more timely processing of vendor payments and apply them to appropriate accounts within their accounts receivable system. Further, enhance collection efforts to ensure all amounts owed by other State agencies are collected timely and in full and that only amounts owed by outside entities that are potentially uncollectible be considered in determining an allowance for uncollectible accounts. Financial statements should reflect the entire amount owed to the Department at fiscal year end.

Findings: Deficiencies were noted in the Department's processing, recording and collection of receivables. The following was noted during testing:

1. The Department is not applying payments received to vendor accounts in their Accounts Receivable Posting System (ARPS) for certain internal service funds on a timely basis. At the end of FY06 the Department had received a total of $16,373,021 in the Facilities Management Revolving Fund and $2,026,995 in the Communications Revolving Fund that had not been applied against the corresponding agency account.

Department officials stated payments received by other agencies are not always documented to indicate a specific invoice making the application to specific accounts difficult.

2. Amounts deemed uncollectible from other State agencies, component units and the federal government increased significantly from FY05 to FY06. During FY06 the Department requested permission to write-off receivables totaling $512,650, the majority of which was owed by other State agencies, compared to only $75,730 written off in fiscal year 2005. Amounts owed by other State agencies should be collectible in their entirety.

Department officials stated that statewide budget cuts in FY04 and FY05 and the consolidations into the Department have resulted in other State agencies' inability to pay the internal service funds.

3. In the GAAP reporting to the Office of the Comptroller, the Department reports net accounts receivable relating only to the current fiscal year without regard to outstanding balances relating to prior fiscal years that remain uncollected. As such, the financial statements reflect an improper timing in the recognition of income between fiscal years.

   Department officials stated the increased receivables are due to dramatically increased billings to state agencies as a result of the consolidations, compounded by agency budget shortfalls. Financial statement treatment of receivables is based on past practice and historical experience with uncollectible accounts.

   The methodology for calculating the allowance for uncollectible accounts receivable does not consider receivable written off in prior years. As a result, the estimated uncollectible balance is not representative of the historical financial results.

Response: Accepted. The Department agrees but notes that it has limited influence over the budgets or payment cycles of other agencies. To the extent practicable, the Department seeks to collect past due amounts, and properly estimate allowances for doubtful accounts based on its collections experience.

13. Enforce procedures requiring the approval or disapproval of vouchers within 30 days of receipt and comply with the payment of vouchers within 60 days of physical receipt, as required by the Illinois Administrative Code. (Repeated-2004)

Findings: The Department did not process invoice vouchers in a timely manner as required. During testing of 60 vouchers, the auditors noted nine (15%) vouchers were not approved in a timely manner. Those not approved within 30 days of physical receipt were approved from 2 to 224 days late. Fourteen (23%) of the 60 vouchers were not paid within 60 days of receipt. During fiscal year 2006 the Department made interest payments for late payment of vouchers totaling $277,822.

Department personnel stated the exceptions were due to delays in processing due to the lack of fiscal staff and insufficient cash flows in certain revolving funds.

Response: Accepted. In almost all cases the late payments are the result of insufficient cash balances. To the extent that cash balances dip below a sufficient working balance, the Department must delay some payments.

14. Establish an appropriate mechanism that will enable all employees to maintain time sheets in compliance with the Act. (Repeated-2004)

Accepted – continued

<u>Findings:</u> The Department is not maintaining time sheets for its employees in compliance with State law which requires State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour.

The auditors noted that only 75 out of 1,745 average Department employees maintained time sheets in compliance with the Act. Most employees' time is generally tracked using the Central Management Services payroll system, which is a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. The employees documenting time to the nearest quarter hour were only upper management employees including the Director, General Counsel, and employees in other positions that involve either principal administrative responsibilities for the determination of policy or principal administrative responsibility for the way in which policies are carried out.

The Department revised its policies regarding time reporting to ensure the policies were consistent with the Act. However, the Department did not modify the timekeeping system to accommodate the additional detail necessary to comply. Department management stated they are considering modifications to the existing timekeeping system.

<u>Response:</u> Accepted. The ongoing Shared Services initiative will be focusing on a statewide time keeping solution.

15. Restrict or remove access to SAMS for employees whose duties no longer require the access on a timely basis.

<u>Findings:</u> The Department did not timely restrict access to the Comptroller's Statewide Accounting and Management System (SAMS) by employees who terminated their employment or whose job no longer required access to SAMS.

During FY06 the Department had 15 employees who had been granted access to SAMS; however, four terminated their employment or moved into a job that did not require access to SAMS. The Department failed to terminate access to SAMS on a timely basis for all four employees. These employees had access to SAMS for entry, update or approval status for between 7 to 16 months after leaving their positions.

<u>Response:</u> Accepted. The Department has implemented procedures within our Accounting Division during FY07 to better control access to this system.

16. Comply with the Fiscal Control and Internal Auditing Act by ensuring that audits of all major systems of internal accounting and administrative control be conducted at least once every two years and that independent reviews of major new computer systems and major modifications to those computer systems are performed.

<u>Findings:</u> The Department's Illinois Office of Internal Audit (IOIA) did not complete audits of all major systems of internal accounting and administrative control as required. For the two year audit period ending June 30, 2006, the IOIA planned to conduct 196 audits but only completed 46 audits (23%) with an additional 24 audits (12%) in progress.

Executive Order 2003-10 consolidated the internal audit functions of the agencies and boards under the jurisdiction of the Governor within the IOIA. To achieve cost savings and enhance the internal audit process, the IOIA adopted a risk-based audit model intended to focus audit effort on those processes and functions within the State that were deemed to have increased or higher risk. An internal audit plan was developed in response to the assessment of risk with the objective of complying with the requirements of the Act. This plan called for the IOIA to conduct audits of various functions in specific agencies and to conduct audits of certain processes across multiple agencies.

Department officials stated they did not comply with the requirements of the Act because the risk-based model was new, there was an ineffective allocation of internal audit resources and considerable time was spent on administrative matters.

<u>Response:</u> Accepted. The Department will effectively allocate resources to ensure compliance with the Fiscal Control and Internal Auditing Act.

17. Ensure all interagency agreements are approved by an authorized signer prior to the effective date of the agreement. Additionally, take the necessary steps to increase monitoring of the billings and expenses submitted by the contractors and request refunds in instances where the Department determines that the contractor was overpaid. Further, require all interagency agreements include methodology supporting the percent allocations used for billing of shared services.

<u>Findings:</u> The Department's process to monitor interagency agreements, which are binding contracts between State agencies, was inadequate. During an examination of four interagency agreements between the Department and the Governor's Office of Management and Budget, the following deficiencies were noted:

- None of the four interagency agreements tested were signed by all necessary parties before the effective date. The agreements were signed 127 – 385 days late.

- One of the four interagency agreements pertaining to legal services did not include supporting documentation detailing the methodology used for determining the percent allocation to be paid by the Department for billing of shared services.

Accepted – concluded

- All four interagency agreements tested had services invoiced prior to the effective date of the agreement totaling $387,488.

- One of the four interagency agreements pertaining to legal services had the same expense paid twice totaling $10,986.

Department officials stated interagency agreements are required to be signed prior to their effective dates. However, they submitted required late filing affidavits regarding the dates of performance and execution with the Office of the Comptroller.

The purpose of interagency agreements is to assist the Department in fulfilling its mandated mission. In order to assess whether the agreement is reasonable, appropriate, and sufficiently documents the responsibilities of the appropriate parties, the agreement needs to be approved prior to the effective date, include proper documentation supporting the percent allocation used for billings, and include proper support for payments to vendors.

Response: Accepted. The Department notes however that all affidavits regarding these contracts were properly executed and filed, and all Comptroller rules were met. The Department has also received a refund for the duplicate payment.

18. Develop the necessary rules affecting the State employees' group insurance program in accordance with the Illinois Administrative Procedure Act and the request by JCAR.

Findings: The Department has not developed rules or policies describing the State employees' group insurance program as requested by the Joint Committee on Administrative Rules (JCAR).

As of March 13, 2007, the Department has not completed or submitted rules to JCAR for their consideration. Department officials have represented that the rules have not been completed due to their complex nature.

Response: The Department has written rules established for five of the six programs under the Group Insurance Act. Specifically, rules exist for the Local Government program, the Teachers' Retirement Insurance Program, the College Insurance Program, the Flexible Spending (MCAP and DCAP) programs and the Commuter Savings Program. Staff is currently updating the TRIP, CIP and LGHP programs. Both the Flexible Spending rules and the Commuter Savings rules have been updated within the past 18 months.

The Department concurs that there are no rules established for the Group Health Program. Draft rules were completed and forwarded to JCAR for review in the fall of 2006. Due to the ever-changing landscape of the program, it is extremely difficult to complete the necessary administrative rules. The Bureau of Benefits continues to work to develop the rules associated with the Group Insurance Act.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY06, the Department spent $5,247,750.33 for emergency purchases as follows:

- $1,501,904.08 for electricity,
- $1,264,961.15 for information technology services,
- $ 905,763.02 for repairs,
- $ 765,900.00 to lease space for the radio facility for the State Police
- $ 442,400.00 for food at DOC facilities,
- $ 199,295.08 for telecommunications,
- $ 118,252.00 for a security system at a DHS facility, and
- $ 49,500.00 for equipment.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

Central Management Services indicated as of July 2006, the Department had 58 employees assigned to locations other than official headquarters.